# Relevance of Cash Flow Information in Long-Term Investment Assessment: Time Value of Money Perspective

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A B S T R A C T

This study aims to examine the relevance of cash flow information in the long-term investment assessment process by considering the time value of money perspective. The study was conducted at PT Mahaka Media Tbk during the period 2020–2022, using consolidated financial statement data covering cash flows from operating, investing, and financing activities. The analysis methods used include cash flow evaluation, capital expenditure (CAPEX) calculation, and free cash flow (FCF) to measure the company's ability to finance its long-term investments internally. The results of the study show that PT Mahaka Media Tbk consistently experiences negative operating cash flow, which has an impact on the company's dependence on external funding to support investment. This condition affects the present value of future cash flows due to higher capital costs, thus reducing the feasibility of long-term investment. This finding emphasizes the importance of integrating cash flow information and the concept of the time value of money in investment decision making, in order to ensure that investment projects can generate added value sustainably. This study provides practical implications for financial management in formulating more effective cash flow and investment management strategies.

## 1. Introduction

In business and finance, investment decision-making is a crucial process that involves evaluating the profit prospects and risks of a project or asset. Long-term investments, including fixed assets such as property, plant, and equipment, as well as long-term development projects, often require comprehensive analysis to ensure that future cash flows will provide a return commensurate with the funds invested. One of the main approaches in such analysis is the use of cash flow information as a basis for assessment, especially in the time value of money framework.

The concept of the time value of money states that the value of a sum of money today is greater than the value of the same sum of money in the future because of the potential return that can be obtained from the investment of that money. Therefore, in the context of long-term investment assessment, understanding and applying the principle of the time value of money becomes very important. Cash flow information, especially projections of cash inflows and outflows over the life of the project, is the main ingredient for calculating investment feasibility indicators such as Net Present Value (NPV), Internal Rate of Return (IRR), and Payback Period. These indicators help management in assessing whether an investment project is feasible or not.

However, despite its importance, cash flow information is often not fully utilized optimally in the investment assessment process. Some organizations or investment managers still rely on accounting-based information such as net income, which does not fully reflect the entity's ability to generate cash. In fact, net income can be distorted by certain accounting policies such as depreciation, amortization, or changes in accounting estimates, while cash flow provides a more objective picture of the entity's actual capacity to meet obligations and fund long-term projects.

Therefore, a study of the relevance of cash flow information in long-term investment assessment is important, especially in the context of the application of the time value of money. A deep understanding of how cash flow is used to assess investment projects, as well as how this information plays a role in rational and value-oriented decision making, is essential in modern competitive and high-risk business practices.

This study aims to examine the relevance and strategic role of cash flow information in the long-term investment assessment process from the perspective of the time value of money, and to evaluate the extent to which this information is used effectively in financial management practices.

## 2. Literature Review

### Cash Flow

Cash flow is the inflow and outflow of cash or cash equivalents from an entity in a certain period of time. According to the Statement of Financial Accounting Standards (SFAS) and PSAK 2 (Financial Accounting Standards Statement), cash flow statements are classified into three main activities: operating, investing, and financing activities. Cash flow information provides an overview of the company's ability to generate cash to support operations, pay off liabilities, and fund future investments (Kieso, Weygandt, & Warfield, 2019). Unlike net income which can be affected by accounting methods, cash flow reflects the company's actual liquidity condition. In the context of long-term investment, cash flow information is used to estimate cash in

## 3. Results and Discussion

Analysis of PT Mahaka Media Tbk's financial statements for the period 2020 to 2022 shows an interesting pattern related to the relevance of cash flow information in assessing long-term investments, especially from the perspective of the time value of money. During the three years, the company experienced negative cash flow from operating activities consistently, indicating that the company's core operations have not generated sufficient cash to cover daily operational needs. This condition implies the company's internal limitations in funding its investment activities without the support of external funding sources.

This negative operating cash flow phenomenon greatly affects the assessment of long-term investments. Long-term investments, which usually require large and ongoing capital expenditures, become less ideal if they are not supported by healthy cash flow from operating activities. PT Mahaka Media Tbk did show fluctuating capital expenditure (CAPEX) during the period, with a significant increase in 2022. Although the increase in CAPEX can indicate the company's efforts to expand or renew assets, the instability of operating cash flow makes the financing of these investments highly dependent on external funding, such as loans or issuance of new shares.

This dependence on external funding sources has important implications in the context of the time value of money. Given that external funding usually comes with a higher cost of capital and additional risk, the present value of future cash flows generated from the investment tends to be more discounted. This means that, although the investment project may generate positive cash flows in the future, the high cost of capital due to dependence on external financing will reduce the present value of the investment, thereby negatively affecting the feasibility and long-term investment decisions.

Furthermore, the calculation of free cash flow (FCF) which consistently shows negative numbers for several consecutive years, confirms that after meeting operational and investment needs, the company's available cash is very limited or even in deficit. This confirms that the company's ability to create added value from the liquidity side is still not optimal. In the context of investment decision making, this negative FCF indicates a higher risk because long-term investments require stable and sustainable funding in order to run smoothly and produce the expected value.

From a financial management perspective, this condition requires PT Mahaka Media Tbk to formulate a more mature strategy in managing cash flow and investment. The company must improve operational efficiency so that operating cash flow becomes positive and sufficient to finance investments without having to rely too much on external funding. Thus, the cost of capital can be reduced, and the time value of money from the investment made can be maximized.

Overall, the situation of PT Mahaka Media Tbk during the research period shows how cash flow information is very relevant in assessing long-term investments. Healthy operating cash flow will be the main indicator for investors and management to determine the feasibility of an investment project. The principle of the time value of money is also important, because the rate of return on investment must take into account the cost of capital and the risks arising from the company's liquidity conditions. Therefore, the integration of cash flow analysis and the time value of money in investment decision making will help companies choose projects that are not only financially potential, but can also be run sustainably in the long term.

**1. Cash Flow Analysis**

Based on the consolidated financial statements of PT Mahaka Media Tbk, the following is a summary of the company's cash flow during the period 2020–2022:

| Tahun | Arus Kas dari Aktivitas Operasi (Rp) | Arus Kas dari Aktivitas Investasi (Rp) | Arus Kas dari Aktivitas Pendanaan (Rp) |
|---|---|---|---|
| 2020 | -50.463.130.370 | -912.232.115 | 54.723.741.668 |
| 2021 | -12.170.455.306 | -1.017.894.083 | 410.713.013 |
| 2022 | -96.201.303.946 | -6.761.328.030 | 158.689.107.225 |

Negative cash flow from operating activities indicates that the company is having difficulty generating cash from operating activities. This impacts the company's ability to finance long-term investments internally. This cash flow deficit indicates the company's dependence on external funding to support investment.

**2. Capital Expenditure (CAPEX)**

The company's long-term investments, reflected in capital expenditures (CAPEX), show significant fluctuations:

a) 2020: -Rp 951,932,115

b) 2021: -Rp 2,112,124,630

c) 2022: -Rp 6,761,328,030

d) 2023: -Rp 978,367,632

Significant fluctuations in capital expenditures (CAPEX) reflect instability in the company's investment strategy. Although there was an increase in investment in 2022, with negative operating cash flow, the company's ability to finance these investments independently is limited.

**3. Free Cash Flow (FCF)**

The calculation of Free Cash Flow (FCF) shows a consistent deficit:

a) 2020: -Rp 51,415,062,485

b) 2021: -Rp 2,112,124,630

c) 2022: -Rp 26,690,185,172

d) 2023: -Rp 978,367,632

Negative Free Cash Flow (FCF) every year indicates that the company does not have sufficient cash after meeting operational and investment needs. This indicates that the company must seek external funding sources to support the continuity and expansion of its business.

In the context of the time value of money, negative cash flow indicates that the present value of the company's future cash flows is low risk. However, dependence on external funding can increase the cost of capital and affect the viability of long-term investments.

## 4. Conclusion

Based on the analysis of cash flow, capital expenditure, and Free Cash Flow, it can be concluded that PT Mahaka Media Tbk faces challenges in generating positive cash flow from operational activities. Fluctuations in capital expenditure and dependence on external funding indicate the need for a more efficient and sustainable financial strategy to support the company's long-term investment.

## 5. Recommendation

Summarize the main points of the paper, including the problem, methodology, findings, and implications. Emphasize the contribution of this study to the field.

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